Financial Statements

Montana State Fund

(a Component Unit of the State of Montana)

December 31, 2023

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
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June 2024

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the Montana State Fund audit for the calendar year ended December 31, 2023.

The audit was conducted by Eide Bailly LLP under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Montana State Fund's written response to the report is included in the back the report.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

24C-15

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Independent Auditor's Report

To the Legislative Audit Committee of the Montana State Legislature
Helena, Montana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Montana State Fund, a component unit of the state of Montana, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Montana State Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Montana State Fund, as of December 31, 2023, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Montana State Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana State Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Montana State Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana State Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, risk management trend information, retirement plans schedules, and other post-employment benefits schedules be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2024, on our consideration of Montana State Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montana State Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana State Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
June 28, 2024

Montana State Fund
(A Component Unit of the State of Montana)
Management Discussion and Analysis
December 31, 2023

On July 1, 1915, the “Montana’s Workmen’s Compensation Act” became effective, establishing a system of medical and wage loss benefits for injured employees and protection from catastrophic lawsuits for employers. While the law has been modified over the ensuing century, the basic premise of the law is still intact.

The State of Montana Legislature created Montana State Fund (MSF), in its current form, in 1990 when it separated workers’ compensation liabilities into claims that occurred before July 1, 1990, and those that occurred after July 1, 1990. The claims before that date are referred to as the "Old Fund" and are the responsibility of the State of Montana's General Fund. The claims after that date ("New Fund") are the responsibility of MSF. MSF is defined in state statute as a "nonprofit independent public corporation."

The Montana Commissioner of Securities and Insurance (CSI) has regulatory oversight of MSF and because MSF assumes the risk of the guaranteed market and can only be dissolved by an act of the State of Montana Legislature, MSF is required to maintain a Risk-Based Capital Company Action Level and Regulatory Action Level double that of other insurers in the state.

In Montana, employers have three options for purchasing and providing workers' compensation coverage:

- Plan 1 - Develop a self-insurance program
- Plan 2 - Purchase from a private company
- Plan 3 - Purchase from MSF

This structure provides employers options that will best meet their needs, promotes competition, while also ensuring a guaranteed market is available for Montana employers. In 2023, MSF covered about 57% of the insured market (Plan 2 and 3). MSF insures over 350 industries, both small and large accounts, across the state.

MSF is governed by a seven member Board appointed by the Governor. MSF is designed to be neither more nor less than self-supporting from policyholder premium and investment revenue and is not funded by taxpayer dollars. Although MSF is an independent business enterprise, as an agency of the State of Montana, it is considered a “public entity.” Hence, it is subject to Montana’s public open meeting law(s) and is constitutionally required to use the Montana Board of Investments (MBOI) as its investment manager. MSF's annual report, budget, and business plan are made available to the Governor and all Legislators.

MSF adheres to National Association of Insurance Commissioners (NAIC) statutory financial reporting and filing requirements, which include annual independent audits of the NAIC financial statements. Financial results are also completed on a Governmental Accounting Standards Board (GASB) basis and included as a component unit in the State’s Comprehensive Annual Financial Report. In addition, the Legislative Audit Division oversees annual financial compliance audits which are reported to the Legislative Audit Committee.

MSF also administers the claims remaining in the Old Fund for the State of Montana. The assets of the Old Fund were completely liquidated in 2011 and benefit payments and administrative costs for claims occurring before July 1, 1990, are supported by General Fund resources as required under state law

(§39-71-2352, MCA). Therefore, the Old Fund is considered to be part of the Primary Government for financial reporting purposes and is not included in the accompanying financial statements.

Overview of the Financial Statements

This overview is an introduction to Montana State Fund financial statements. MSF's financial statements consist of two components: (1) basic financial statements, and (2) notes to the basic financial statements.

The Statement of Net Position presents information regarding all of MSF's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and total net position.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents the financial results of operations for MSF for the year ending December 31, 2023. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows details the cash used and provided by the various activities of MSF during the fiscal period. However, this statement does not consider unpaid responsibilities which have been established by contract or other underlying events during the period.

Financial Highlights

MSF continues to deliver high-quality services to Montana businesses while instituting annual rate reductions. MSF supports a competitive insurance market in Montana, offering a competitively priced product based upon actuarially sound rates while still fulfilling its role as the carrier for the guaranteed market. The MSF Board of Directors approved an average 5% rate reduction for the policy year effective from July 1, 2023 to June 30, 2024 and recently approved a reduction of 10% effective July 1, 2024.

The Board of Directors, based on analysis of policyholder equity adequacy and financial results, approves the amount of dividends to be issued. MSF has declared and paid dividends to policyholders for 25 consecutive years. MSF paid dividends of $35M (million) to qualifying policyholders during 2023.

Analysis of Financial Position and Results of Operations

The following analysis presents comparative condensed financial data for MSF.

Net Position (in thousands)

		December 31, 2023		December 31, 2022
Current and Other Assets	$	232,531	$	190,632
Capital Assets (Net)		39,467		44,347
Investments		1,394,676		1,381,537
Total Assets		1,666,674		1,616,516
Total Deferred Outflows of Resources		4,060		5,496
Current Liabilities		242,371		215,762
Long-term Liabilities		859,774		889,222
Total Liabilities		1,102,145		1,104,984
Total Deferred Inflows of Resources		4,511		3,102
Net Position:				
Net Investment in Capital Assets		39,467		44,347
Unrestricted		524,611		469,580
Total Net Position	$	564,078	$	513,927

MSF's overall net position increased during the year ended December 31, 2023, largely due to unrealized gains on MSF's investment portfolio. With around $1.7B in combined assets and deferred outflows of resources to meet $1.1B of liabilities and deferred inflows of resources, MSF is well-positioned to meet the commitments to policyholders that it has incurred.

The largest component of MSF assets is investments, which increased during the year ended December 31, 2023. The change in value is summarized in the following display (in millions):

		Year Ended December 31, 2023		Year Ended December 31, 2022
Prior Year Market Value	$	1,381	$	1,552
Purchases at Cost	$	318	$	291
Sales	$	(352)	$	(303)
Net Realized Gains (Losses)	$	14	$	(4)
Net Accretion (Amortization) of Bonds	$	2	$	—
Unrealized Gain (Loss)	$	32	$	(155)
Current Year Market Value	$	1,395	$	1,381

The most significant MSF liability is estimated claims payable, which decreased during the year ended December 31, 2023. This liability increases from new claims added for the year and decreases from claim payments made. Additionally, changes to the estimates for prior years can increase or decrease the liability.

MSF continues to realize the positive effects of laws passed in 2011 expanding an insurer's ability to settle a claim's medical liability and as a result, had favorable development on prior accident years of $14.0M. The changes to the total estimated claims liability are summarized in the following display (in thousands):

	Year Ended December 31, 2023	**Year Ended December 31, 2022**
Estimated Claims Payable - Beginning	$ 924,393	$ 935,977
Incurred Claims Payable	112,933	102,530
Claim Payments	(134,902)	(114,114)
Estimated Claims Payable - Ending	$ 902,424	$ 924,393

WTW, an independent actuarial firm, prepares an annual actuarial study used to estimate claims liabilities for MSF and provides a range of potential costs associated with claims. MSF management recommended and the Board of Directors approved an estimate within that range as the estimated claims payable, consisting of unpaid claims, bulk reserves, and claim adjustment expenses.

Changes in Net Position (in thousands)

	Year Ended December 31, 2023	Year Ended December 31, 2022
Operating Revenues:		
Net Premium Earned	$ 176,150	$ 168,470
Operating Expenses:		
Benefits and Claims	112,933	102,530
Personal Services	35,823	34,880
Dividend Expense	35,006	30,014
Other Operating Expense	30,471	33,694
Total Operating Expenses	214,233	201,118
Net Operating Income (Loss)	(38,083)	(32,648)
Nonoperating Revenue (Expense):		
Investment Income (Loss)	86,636	(123,527)
Other Nonoperating Revenue	1,599	1,561
Total Nonoperating Revenue (Expense)	88,235	(121,966)
Change in Net Position	50,151	(154,613)
Beginning Net Position	513,927	668,540
Total Net Position	$ 564,078	$ 513,927

For the year ended December 31, 2023, MSF had an increase in net position of $50.2M after returning $35.0M in dividends to eligible policyholders. Despite continued rate decreases, net premium income was up about 5% from the prior year due to payroll and wage growth in Montana. Premium retention, or the amount of premium that was retained from the prior year, was approximately 92% for the year ended December 31, 2023, which is consistent with MSF’s recent history.

The increase in benefit and claims expenses from the prior year was due to a larger current year ultimate loss in 2023 than 2022, as well as less favorable development recognized in 2023 than there was in 2022. In both years, MSF recorded significant favorable development as external actuaries are recognizing that claim settlements are shortening the medical tail, or costs, on prior year claims.

Overall, other operating expense levels increased slightly in 2023 as compared to the prior year mostly due to a larger dividend declaration.

The final major contributing factor in the $50.2M change in net position is MSF’s investment income. As interest rates stabilized during 2023, bond prices increased, leading to significant unrealized gains on MSF's portfolio.

An operating loss of $38.1M that includes $35M of dividends, coupled with significant investment income resulted in a change in net position of $50.2M.

Looking Forward

As a mono-line insurer only licensed to write business within the State of Montana, MSF cannot look to other lines of business and/or geographic markets in order to diversify its risk and/or create economies of scale to strengthen its position in the industry on behalf of its policyholders and other Montana businesses. As a result, MSF's strategic vision is to build stronger relationships with employers and to become Montana's favorite workers' compensation partner. Although MSF is statutorily required to offer guaranteed workers' compensation coverage, it strives to be a business partner by offering competitive pricing and positive customer interactions.

As examples of its intense commitment to Montanans, MSF offers comprehensive safety programs designed to improve the workplace safety culture in Montana. MSF invests about $3 million a year to provide safety training, consulting services, and resources to MSF's policyholders and their employees. Moreover, MSF is a significant mentor and contributor to high school students pursuing trade careers and the schools which they attend. MSF has provided safety materials to numerous high schools across the state over the last several years and offered college scholarships, which is helping to prepare students for long, productive careers serving Montanans just as MSF does.

To the extent that comments presented above constitute forward-looking statements, these statements are not guarantees of future performance. Forward-looking statements are based on current expectations and projections that may change significantly over time due to changes in the industry, market fluctuations, and other factors.

Statement of Net Position

Montana State Fund is a component unit of the State of Montana

	December 31, 2023
ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 51,642,261
Receivables, Net	95,590,246
Securities Lending Collateral	22,534,493
Other Assets	2,234,105
Total Current Assets	172,001,105
Noncurrent Assets	
Investments	1,394,676,196
Reinsurance Receivables	60,529,728
Capital Assets:	
Land & CWIP	1,463,120
Other Capital Assets, Net of Depreciation	38,004,041
Total Capital Assets	39,467,161
Total Noncurrent Assets	1,494,673,085
Total Assets	1,666,674,190
DEFERRED OUTFLOWS OF RESOURCES	4,059,998
LIABILITIES	
Current Liabilities	
Accounts Payable	15,573,811
Estimated Claims Payable	137,917,748
Unearned Premium	63,223,057
Securities Lending Liability	22,534,493
Other Current Liabilities	3,121,501
Total Current Liabilities	242,370,610
Noncurrent Liabilities	
Estimated Claims Payable	764,505,461
Reinsurance Funds Withheld	60,779,374
Net Pension Liability	26,844,447
Other Noncurrent Liabilities	7,645,088
Total Noncurrent Liabilities	859,774,370
Total Liabilities	1,102,144,980
DEFERRED INFLOWS OF RESOURCES	4,510,978
NET POSITION	
Net Investment in Capital Assets	39,467,161
Unrestricted	524,611,069
Total Net Position	$ 564,078,230

Statement of Revenues, Expenses, and Changes in Fund Net Position

Montana State Fund is a component unit of the State of Montana

	For the Year Ended December 31, 2023
Net Premiums Earned	$ 176,149,567
Operating Expenses	
Benefits and Claims	112,932,904
Personal Services	35,823,414
Contractual Services	11,859,155
Supplies and Materials	1,311,883
Communications	1,504,094
Travel	241,672
Rent and Utilities	331,804
Repair and Maintenance	1,757,129
Depreciation and Amortization	6,866,087
Dividend Expense	35,006,166
Other Operating Expenses	6,599,344
Total Operating Expenses	214,233,652
Operating Income (Loss)	(38,084,085)
Nonoperating Revenue (Expenses)	
Investment Income (Loss)	86,636,272
Securities Lending Income	918,993
Securities Lending Expenses	(559,657)
Loss on Retirement of Assets	(99,342)
Other Income	1,339,256
Total Nonoperating Revenue (Expenses)	88,235,522
Change in Net Position	50,151,437
Total Net Position - Beginning	513,926,793
Total Net Position - Ending	$ 564,078,230

YEAR ENDED DECEMBER 31,	2023
Cash Flows from Operating Activities	
Receipts for Premiums	$ 169,707,434
Payments for Claims	(135,664,811)
Payments to Employees	(35,238,053)
Payments to Suppliers for Goods and Services	(19,504,483)
Payments for Dividends	(34,811,522)
Other Operating Receipts	1,601,155
Net Cash Provided by (Used for) Operating Activities	(53,910,280)
Cash Flows from Capital and Related Financing Activities	
Acquisition of Fixed Assets	(953,306)
Proceeds from Disposal of Fixed Assets	11,465
Net Cash Provided by (Used for) Capital and Related Financing Activities	(941,841)
Cash Flows from Investing Activities	
Purchase of Investments	(317,884,804)
Proceeds from Sales or Maturities of Investments	352,135,196
Interest and Dividends on Investments	38,188,962
Net Cash Provided by (Used For) Investing Activities	72,439,354
Net Increase (Decrease) in Cash and Cash Equivalents	17,587,233
Cash and Cash Equivalents - January 1	34,055,028
Cash and Cash Equivalents - December 31	$ 51,642,261

YEAR ENDED DECEMBER 31,	2023
Reconciliation of Change in Net Position to Net Cash Provided by (Used for) Operating Activities	
Change in Net Position	$ 50,151,437
Adjustments to Reconcile Change in Net Position to Net Cash Provided by (Used for) Operating Activities	
Depreciation and Amortization	6,866,087
Loss on Sale of Fixed Assets	99,342
Income on Investments	(86,995,608)
Decrease (Increase) in	
Accounts Receivable	(8,959,726)
Reinsurance Receivables	(3,235,630)
Deferred Outflows of Resources	1,436,014
Other Assets	(599,702)
Increase (Decrease) in	
Accounts Payable	5,091,891
Unearned Premium	2,489,694
Property Held in Trust	(20,083)
Reinsurance Funds Withheld	2,495,854
Estimated Claims Payable	(21,969,277)
Deferred Inflows of Resources	1,409,256
Pension Liabilities	(549,172)
OPEB Liability	(1,720,454)
Lease Liability	76,502
SBITA Liability	13,578
Compensated Absences	9,717
Total Adjustments	(104,061,717)
Net Cash Provided by (Used for) Operating Activities	$ (53,910,280)

1. Summary of Significant Accounting Policies

Description of Business

The Montana State Fund (MSF) is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is a discretely presented component unit of the State of Montana and results are included in the State's Annual Comprehensive Financial Report because of the significance of MSF's financial relationship with the State. MSF is governed by a seven member Board of Directors appointed by the Governor. The Board has full power, authority, and jurisdiction in the administration of MSF. MSF's Board is allocated to the State of Montana, Department of Administration for administrative purposes only.

In 1990 legislation passed establishing separate funding and accounts for claims of injuries resulting from accidents occurring before July 1, 1990, referred to as the Old Fund, and claims occurring on or after July 1, 1990, referred to as the New Fund. Hereafter, any reference to MSF refers to the New Fund or those claims occurring on or after July 1, 1990.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. MSF administers and manages the claims remaining in the Old Fund for the State of Montana. Other than the administrative fees paid for the management of the Old Fund claims, no State of Montana General Fund money is used for MSF operations.

Effective January 1, 2016, MSF became an authorized insurer regulated by the Montana State Auditor's Office and is subject to the provisions of Title 33, Montana Insurance Code. As a result, MSF reports financial results on a calendar year basis instead of using the State's fiscal year ending June 30th.

Basis of Presentation

The financial statements are presented in accordance with generally accepted accounting principles (GAAP) as prescribed by the GASB. MSF insurance operations are classified as one of the State's enterprise funds, in the proprietary fund category. The financial statements in this report reflect the financial position and results of operations and cash flows of MSF for the year ending December 31, 2023.

Basis of Accounting

MSF uses the accrual basis of accounting, as defined by GAAP, for its workers' compensation insurance operations. Under the accrual basis, revenues are recorded in the accounting period earned, if measurable, and expenses are recorded in the period incurred, if measurable.

Cash and Cash Equivalents

Cash balances include funds held by the State Treasury. Cash equivalents are short-term, highly-liquid investments that are both readily-convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. MSF participates in the Montana Board of Investments' Short Term Investment Pool (STIP), an external investment pool. STIP is managed and administered under the direction of the Montana Board of Investments (BOI) as authorized by the Unified Investment Program. STIP is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The STIP portfolio is reported at net asset value. STIP balance as of December 31, 2023, was $48.8M.

Investments

MSF holds investments in long-term debt securities, mutual funds, real estate partnerships, and a real asset partnership through the BOI. Under the provisions of the state constitution, MSF's invested assets are managed by the BOI. Securities are stated at fair value. Premiums and discounts are amortized using the scientific method over the life of the securities.

The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is the risk that an issuer or other counterparties to an investment will not fulfill its obligation. Except for U.S. Government securities, MSF's fixed income instruments have credit risk as measured by Nationally Recognized Statistical Rating Organizations (NRSRO) ratings. Credit risk is managed by constraining portfolio purchases around investment-grade NRSRO ratings, as appropriate.

The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk.

MSF's investment policy requires investment grade fixed income investments, at the time of purchase, to be rated investment grade by two NRSROs.

Asset-backed securities are bonds backed by cash flows from principal and interest payments emanating from a trust containing a pool of underlying assets. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes factors such as default rates, over collateralization, and quality of collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in possession of

an outside party. Per policy, BOI's custodial bank must be rated at the 6th investment grade rating by at least two NRSROs on an annual basis.

As of December 31st, all of the cash and investment funds were registered in the nominee name for BOI and held in possession of BOI's custodial bank. MSF's cash deposits are insured by the Federal Deposit Insurance Corporation up to applicable limits. Any amount over those limits is collateralized by US Bank.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. Excluded from the concentration of credit risk requirement are investments explicitly guaranteed by the U.S. Government. MSF's investment policy addresses this risk by limiting a maximum of 3% of the market value of the portfolio to any single parent company issuer, and limiting a maximum of 5% of the portfolio to any single mandate in real estate.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses weighted effective duration as a measure of interest rate risk for the MSF portfolio.

MSF's investment policy states the duration is to remain within 20% of the Bloomberg US Aggregate Bond Index benchmark.

According to the STIP Investment Policy, interest rate risk is minimized by:

1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
2) maintaining a dollar-weighted average portfolio maturity of 120 days or less ; and
3) maintaining a reserve account.

The fixed coupon holdings pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. The portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate.

Investments at fair value are categorized to disclose credit risk and interest rate risk on the following table for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration. NRSRO provides the credit ratings presented in the following tables.

Security Investment Type		Fair Value (in thousands)	Credit Quality Rating	Effective Duration
Treasuries	$	244,797	AAA	10.28
Agency/Government Related		84,946	AAA	3.81
Asset Backed Securities		52,017	AAA	1.90
Mortgage Back Securities - Noncommercial		266,800	AAA	5.07
Mortgage Back Securities - Commercial		18,482	AAA	4.26
Corporate-Financial		154,905	A-	3.20
Corporate-Industrial		277,043	BBB+	4.39
Corporate-Utility		6,675	BBB-	1.71
Total Fixed Income Investments	$	1,105,665		
Short-term Investment Pool (Unrated)	$	48,813	N/A	N/A

Securities Lending

MSF participates in a securities lending program through the BOI. The BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, to lend securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including December 31st, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the custodial bank split the securities lending earnings, 85/15%, respectively. BOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies BOI’s credit risk exposure to borrowers.

During the year, the custodial bank loaned MSF’s public securities and received various collateral types including cash; U.S. Government and government-sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank cannot sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the number of securities available to lend during the year ended December 31, 2023. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during the year ended December 31, 2023, resulting from a borrower default. As of December 31, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with other BOI securities lending cash collateral, in a highly-liquid, separately managed portfolio. The Daily Collateral Holdings portfolio had an average duration 17 days, and the average weighted final maturity was 52 days.

The following table presents the market values of the securities on loan and the total collateral held as of December 31, 2023:

	Amount
Fair Value On Loan	$ 258,692,611
Collateral Cash	22,534,493
Collateral Securities	249,548,655
Collateral Total	$ 272,083,148
% of Fair Value	105 %

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

Income earned related to securities lending for the year ended December 31, 2023, was $919K. Expenses related to securities lending for the year ended December 31, 2023, were $560K.

Receivables

At December 31, 2023, MSF had a net receivable balance of $95.6M. The gross receivables for billed premium and unbilled premium were $7.6M and $82.6M, respectively. Other receivables include $7.5M in investment income due, $89K in retrospective premium, and claim benefit overpayments of $1.4M, all of which are short term. Receivables for unbilled premium include $6.0M at December 31, 2023, for premium that is earned but unbilled (EBUB). Gross receivables are reduced by the estimated uncollectible receivables, or allowance for doubtful accounts, of $3.6M.

Reinsurance Receivables

As part of the aggregate stop loss reinsurance program, MSF records a receivable for each contract year's funds withheld amount until the loss performance for that contract year is known. The receivable is increased as interest accrues and decreased with the development of a recoverable or in the event of a commutation. The reinsurance receivables were $60.5M at December 31, 2023.

Equipment, Accumulated Depreciation and Intangible Assets

Equipment and intangible assets are capitalized if the actual or estimated historical unit cost exceeds $5K and $100K, respectively. Depreciation expense is computed on a straight-line basis for equipment over a period of three to ten years and amortization of intangible assets is computed on a straight-line basis over four years. Amortization of intangible assets is recorded directly to the asset balance. All fixed assets are shown net of depreciation.

Construction Work in Process

Costs for capitalized equipment and intangible assets are recorded as construction work in process if the asset is not placed in service by the end of the reporting year. Depreciation or amortization begins once the asset is placed in service.

Other Assets

Other assets include advances and prepaid expenses.

Land and Buildings

As of December 31, 2023, MSF financial statements include $1.1M in land and $20.7M in buildings, net of depreciation. Buildings are depreciated on a straight-line basis over a period of 50 years. For additional disclosure related to capital assets, see Note 3.

Accounts Payable

Accounts payable is a short-term liability account reflecting amounts owed for goods and services received by MSF.

Estimated Claims Payable

The estimated claims payable, also called loss reserves, is established to provide for the estimated ultimate settlement cost of all claims incurred. Estimated claims payable is based on reported aggregate claim cost estimates combined with estimates for future development of such claim costs and estimates of incurred but not reported (IBNR) claims. WTW, an external actuarial firm, prepares an actuarial study that provides a range of potential costs associated with reported claims, the future development of those claims, and IBNR. The MSF Board of Directors approved estimates within that range as the estimated claims payable for MSF. The claim costs estimated to be paid in the next year are displayed in Current Liabilities as Estimated Claims Payable and the remainder of the total is shown in Noncurrent Liabilities. For additional disclosure related to the estimated claims payable, refer to Note 5.

Unearned Premium

Unearned premium reflects premium that has been written but not yet earned. The unearned premium was $63.2M at December 31, 2023.

Reinsurance Funds Withheld

Reinsurance funds withheld represents the reinsurance funds held on behalf of the reinsurer, a requirement of MSF’s aggregate stop-loss reinsurance contract. Additional information regarding the funds withheld account can be found in Note 4.

Net Position

Net Position consists of the net excess or deficit of assets plus deferred outflows of resources over liabilities plus deferred inflows of resources. Net Position as of December 31, 2023, was $564.1M.

Premiums

The MSF Board of Directors approves premium rates annually. These rates are then filed with the Montana State Auditor's Office for approval in accordance with MCA, Title 33. Generally, policies are effective for the term of the policy period not to exceed 12 months. Premium revenue is recognized over the term of the policy year as it is earned or when MSF is liable for coverage.

Policyholders are contractually obligated to pay certain premiums to MSF in advance of the period the premiums are earned. Premium advances are refundable when the policyholder's coverage is canceled and all earned premiums have been credited by MSF.

Premium Deficiency Reserve

MSF evaluates each policy year to determine whether the sum of expected claim costs, claim adjustment expenses, and expected dividends exceeds related unearned premiums. Anticipated investment income is included in the analysis. As of December 31, 2023, no premium deficiency exists.

Acquisition Costs

Costs that are primarily related to acquisition of new and renewal policies, such as commissions, underwriting, and policy issuance are recognized as outflows of resources in the period they are incurred.

2. Investments

The Company has the following recurring fair value measurements as of December 31, 2023 (in thousands):

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by fair value level</u>				
Fixed Income Investments				
Treasuries	$ 244,797	$ 244,797	$ —	$ —
Agency/Government related	84,946	—	84,946	—
Asset-backed securities	52,017	—	52,017	—
Mortgage-backed securities-noncommercial	266,800	—	266,800	—
Mortgage-backed securities-commercial	18,482	—	18,482	—
Corporate-Financial	154,905	—	154,905	—
Corporate-Industrial	277,043	—	277,043	—
Corporate-Utility	6,675	—	6,675	—
Domestic equity investments	125,539	125,539	—	—
International equity investments	46,313	46,313	—	—
Total investments by fair value level	1,277,517	416,649	860,868	—

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<u>Investments measured at the net asset value (NAV)</u>				
Core real estate	99,484	None	Monthly, Quarterly	45-90 days
Real Assets	15,000	16,570	Monthly, Quarterly	45-90 days
Cash equivalents held at custodial bank (STIP)	48,813	None	Daily	1-3 days
Total Investments at NAV	163,297	16,570		
Total investments at fair value	1,440,814			
<u>Investments at cost</u>				
Cash and cash equivalents	1,067			
Total investments not categorized	1,067			
Total investments	$ 1,441,881			

MSF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1- Quoted prices for identical assets or liabilities in active markets.
- Level 2- Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3- Prices determined using unobservable inputs.

Fixed income investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. MSF does not classify any holdings within Level 3 of the fair value hierarchy.

MSF holds two commingled equity index funds which invest in domestic equities and funds that invest in international equities. The fair values of the investments of this type have been determined using quoted market prices of the underlying securities in each investment pool.

MSF holds five core real estate funds which make equity investments in operating and substantially-leased institutional-quality real estate in the traditional property types (apartments, office, retail, industrial and hotel) through commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of the investments in this category use the NAV per share (or its equivalent) of MSF's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

In October 2019, a full redemption request for approximately $25 million was submitted for one core real estate fund. As of December 31, 2023, $9.2 million has been redeemed. BOI is confident that the full redemption will be received over a reasonable period.

MSF holds one real asset fund that primarily invests in rail cars. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 10 to 20 years. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of MSF's ownership interest in the partners' capital. As of December 31, 2023, MSF has one unfunded commitment in the real assets class. See Note 9 for further information.

The Short Term Investment Program (STIP) is managed and administered under the direction of the BOI as authorized by the Unified Investment Program. It is an external investment pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of

the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

The amortized cost and estimated market value of MSF's fixed maturity securities as of December 31, 2023, are shown below at contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Market Value
Due one year or less	$ 59,162,579	$ 58,570,004
Due after one year through five years	307,419,593	296,439,353
Due after five years through ten years	285,873,188	276,321,605
Due after ten years	511,636,571	474,333,775
Total	$ 1,164,091,931	$ 1,105,664,737

During the year ended December 31, 2023, MSF realized gross gains from sales of securities of $31.4M and gross realized losses of $(17.0)M. During the year ended December 31, 2023, net investment income was $86.6M, which is comprised of investment income of $54.4M and unrealized gains on investments in the amount of $32.3M.

3. Capital Assets

Changes in capital asset balances for the year ended December 31, 2023 are reflected in the following table:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 1,139,460	$ —	$ —	$ 1,139,460
Construction Work in Process	195,960	323,660	(195,960)	323,660
Total capital assets not being depreciated	1,335,420	323,660	(195,960)	1,463,120
Capital assets being depreciated:				
Buildings/improvements	27,941,323	—	—	27,941,323
Equipment, furniture, and vehicles	7,753,274	308,569	(1,128,397)	6,933,446
Software	36,645,552	—	(6,270)	36,639,282
Intangible right-to-use leased buildings	5,416,920	586,397	—	6,003,317
Intangible right-to-use SBITA	—	1,067,139	—	1,067,139
Total capital assets being depreciated	77,757,069	1,962,105	(1,134,667)	78,584,507
Less accumulated depreciation for:				
Buildings/improvements	(6,680,306)	(530,884)	—	(7,211,190)
Equipment, furniture, and vehicles	(6,569,211)	(279,368)	1,025,093	(5,823,486)
Software	(20,683,687)	(5,610,689)	6,270	(26,288,106)
Intangible right-to-use leased buildings	(812,538)	(273,884)	—	(1,086,422)
Intangible right-to-use SBITA	—	(171,262)	—	(171,262)
Total accumulated depreciation	(34,745,742)	(6,866,087)	1,031,363	(40,580,466)
Total capital assets being depreciated, net	43,011,327	(4,903,982)	(103,304)	38,004,041
Total capital assets, net	$ 44,346,747	$ (4,580,322)	$ (299,264)	$ 39,467,161

4. Reinsurance

For the year ended December 31, 2023, MSF ceded premiums of $1.6M to reinsurance companies to limit the exposure arising from large losses. This arrangement, an excess of loss contract, provides coverage up to $100 million with an MSF retention of $20 million on the first layer of coverage. The excess of loss protection applies to an individual occurrence with a maximum of $10 million on any one life.

In addition to the current year excess of loss contract, MSF has reinsurance contracts from prior years that are still in-force. Historic excess of loss contracts provide various levels of coverage for certain accident years dating back to 1992, while historic aggregate stop loss contracts are in force for accident years 2015-2021. These aggregate stop loss contracts required MSF to maintain a funds withheld liability account which represents the basic premium portion of the total premium paid for aggregate stop loss coverage. The funds withheld liability account at December 31, 2023, is $60.8M. Interest must be

accrued on the funds withheld account which resulted in accrued interest of $2.5M for the year ended December 31, 2023. Furthermore, MSF records a reinsurance receivable for each contract year's funds withheld amount until the loss performance for that contract year is known. The receivable is increased as interest accrues and decreased with the development of a recoverable or in the event of a commutation. The reinsurance receivables were $60.5M at December 31, 2023.

Estimated claim reserves were reduced by $581K as of December 31, 2023, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contracts and $250K due to the aggregate stop loss contracts. In the event reinsurers are unable to meet their obligations under any reinsurance contract, MSF remains liable for all losses, as the reinsurance agreement does not discharge MSF from its primary liability to the policyholders.

MSF also has assumed reinsurance relationships with Zurich American Insurance Company and Argonaut Insurance Company related to Other States' Coverage (OSC). MSF assumes risk related to Montana-domiciled businesses with operations in other states, which are then covered under MSF's ceded reinsurance contract. For the year ended December 31, 2023, assumed premium is $2.9M and incurred losses from OSC benefits were $3.0M. The assumed liability for OSC claims was $4.8M at December 31, 2023.

5. Risk Management

MSF provides liability coverage to employers for injured employees that are insured under the Workers' Compensation and Occupational Disease Acts of Montana. Workers' compensation claims occurring on or after July 1, 1990, are reported in the MSF financial statements. At December 31, 2023, approximately 22,500 active policies were insured by MSF.

MSF is a self-supporting, competitive workers' compensation carrier and functions as the guaranteed market insurer for employers since workers' compensation coverage is mandated in Montana. Employers may obtain coverage through private carriers, through MSF, or through self-funding if they meet certain criteria. State of Montana agencies are required by law to insure through MSF.

Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other social and economic factors. WTW, an external actuarial firm, prepares an actuarial study used to estimate liabilities and the ultimate cost of settling claims reported but not settled and claims incurred but not reported (IBNR) for MSF as of December 31, 2023. Because actual claim costs depend on such complex factors such as inflation, duration, and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

WTW provides a range of potential costs associated with reported claims, the future development of those claims, and IBNR. The MSF Board of Directors approved an estimate within that range as the estimated

claims payable, consisting of unpaid claims and claim adjustment expenses, for December 31, 2023. The MSF estimated unpaid claims and claims adjustment expenses payable presented at face value, net of estimated reinsurance recoverable were $902.4M, as of December 31, 2023. The Statement of Net Position displays this total separated as current and noncurrent estimated claims payable.

State law (Section 39-71-2311, MCA) requires MSF to set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Anticipated investment income is considered when computing premium rate levels. State law also requires the MSF Board of Directors to maintain surplus above risk-based capital requirements to secure MSF against risks inherent in the business of insurance.

Changes in Claims Liabilities

The following table presents changes in the aggregate liabilities for MSF, net of estimated reinsurance recoverable. The information presented has not been discounted.

	2023
Unpaid claims and claim adjustment expenses at beginning of period	$ 924,392,486
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	138,319,060
Increase(Decrease) in provision for events in prior years	(25,386,155)
Total incurred claims and claim adjustment expenses	112,932,905
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(29,952,604)
Claims and claim adjustment expenses attributable to insured events of prior years	(104,949,578)
Total payments	(134,902,182)
Total unpaid claims and claim adjustment expenses at the end of the period	$ 902,423,209

6. Administrative Cost Allocation

State law (Section 39-71-2352, MCA) requires MSF to separately determine and account for administrative expenses and benefit payments for claims for injuries resulting from accidents occurring before July 1, 1990, (Old Fund) from those occurring on or after July 1, 1990, (MSF). MSF allocated $504K in administration costs to the Old Fund for the year ended December 31, 2023. The administration costs are recorded in non-operating revenue as other income. The State of Montana General Fund is responsible for the cost of administering and paying the Old Fund claim benefits.

7. MSF Distributions

In September 2023 the MSF Board of Directors declared a $35M dividend to eligible policyholders. As of December 31, 2023 $201K remained to be paid.

8. Compensated Absences

MSF supports two leave programs, the State of Montana Leave Program (Traditional Plan) and the MSF Personal Leave Program, implemented in January 2002. The State of Montana Leave Program covers union represented employees who have elected to remain in the plan. These employees accumulate both annual leave and sick leave and MSF pays employees 100% of unused annual leave and 25% of unused sick leave upon termination. MSF also pays 100% of unused compensatory leave credits upon termination to non-exempt employees in the Traditional Plan. The MSF Personal Leave Program covers all non-union employees, union employees hired before July 26, 2006, who have elected to adopt the plan, and all employees hired after July 25, 2007. Employees in the Personal Leave Program accumulate personal leave and extended leave. MSF pays employees for 100% of unused personal leave upon termination, but extended leave has no cash value at the time of termination.

The total MSF compensated absences liability is $4.1M as of December 31, 2023.

9. Leases and Commitments

MSF enters into various lease contracts to obtain the right to use assets such as office facilities outside of Helena, minor office equipment, and parking spaces. In accordance with GASB Statement No. 87, MSF records a right-to-use lease asset and a lease liability for all material long-term leases. The assets are amortized over the term of the lease, while the liabilities are reduced as scheduled lease payments are made. The liabilities are discounted using the State of Montana's incremental borrowing rate, represented by the Montana Board of Investment's INTERCAP loan rate. The total amounts of lease assets and associated accumulated amortization are disclosed in Note 3. Short-term leases are recognized as outflows of resources at the time of payment.

MSF leases parking spaces from the City of Helena in a parking garage adjacent to the MSF facility. The cost of the parking spaces is the same monthly rate as equivalent parking passes sold by the City and has the potential to change based on parking rates assigned by the Helena Parking Commission until the lease expires on June 30, 2040.

The future principal and interest requirements for all long-term leases are as follows:

	Principal	Interest	Total
2024	$ 274,758	$ 82,242	$ 357,000
2025	279,291	77,709	357,000
2026	283,900	73,100	357,000
2027	288,584	68,416	357,000
2028	293,346	63,654	357,000
2029 - 2033	1,540,949	244,051	1,785,000
2034 - 2038	1,672,342	112,658	1,785,000
2039 - 2043	351,206	5,794	357,000
	$ 4,984,376	$ 727,624	$ 5,712,000

MSF has given EQT Fund Management, an alternative investment fund manager, a commitment of capital in the amount of 15M Euros, or approximately $16.5M as of the report date. EQT will draw on the capital commitment as investment opportunities arise.

10. Subscription-Based Information Technology Arrangements

MSF has entered into various subscription-based information technology arrangements (SBITAs) that convey control of the right to use another entity's software. In accordance with GASB Statement No. 96, MSF records a right-to-use SBITA asset and a SBITA liability for all material, long-term arrangements. The assets are amortized over the subscription term, while the liabilities are reduced as payments are made to the vendors. The liabilities are discounted using the State of Montana's incremental borrowing rate, represented by the Montana Board of Investment's INTERCAP loan rate. The total amounts of SBITA assets and associated accumulated amortization are disclosed in Note 3. Short-term SBITAs are recognized as outflows of resources at the time of payment.

The principal and interest requirements to maturity are as follows:

	Principal	Interest	Total
2024	179,567	13,298	$ 192,865
2025	122,332	10,509	132,841
2026	87,800	8,607	96,407
2027	90,281	7,239	97,520
2028	92,839	5,833	98,672
2029 - 2033	310,609	12,392	323,001
	$ 883,428	$ 57,878	$ 941,306

MSF has one commitment under a SBITA as of December 31, 2023 that is before the commencement of the subscription term. Payments made under this commitment are recorded as CWIP.

11. Retirement Plans

MSF and its employees contribute to the Public Employees' Retirement System (PERS), which offers two types of retirement plans administered by the Public Employees' Retirement Board (PERB), a defined benefit retirement plan (PERS-DBRP) and a defined contribution retirement plan (PERS-DCRP).

<u>Defined Benefit Retirement Plan</u>

Benefits provided. The PERS-DBRP is a multiple-employer, cost-sharing plan that provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established in state law and may only be amended by the State of Montana Legislature. Members are vested after five years of membership service, which entitles the member to an accrued normal retirement benefit payable at age 60 (or age 65 if hired after June 30, 2011). A member may receive a refund of accumulated contributions in

lieu of a pension, thereby forfeiting the right to a monthly benefit. A description of the benefits and eligibility rules for the plan are shown in the following table:

Eligibility for benefit
Service retirement:

• Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
• Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement:

• Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
• Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS-covered employer or PERS service):

Retire before January 1, 2016, and accumulate less than 2 years additional service credit or retire on or after January 1, 2016, and accumulate less than 5 years additional service credit:

- A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

Retire before January 1, 2016, and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on provisions in effect after the initial retirement; and
- GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retire on or after January 1, 2016, and accumulate 5 or more years of service credit:

- The same retirement as prior to the return to service;
- A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
- GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Monthly benefit formula

- Members hired prior to July 1, 2011
  - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
  - 25 years of membership service or more: 2% of HAC per year of service credit.

- Members hired on or after July 1, 2011
  - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
  - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
  - 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007, and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more.

There have been no changes to benefit terms since the prior measurement date.

Contributions. Contribution requirements for the plan are established in Montana Code Annotated Title 19, Chapter 3, Part 3, and can only be amended by the State of Montana Legislature. All members contribute 7.9% of their compensation. This is a temporary 1% increase for members hired prior to July 1, 2011, and remains the same for members hired on or after July 1, 2011. Interest is credited to member accounts at the rates determined by the PERB. All member contributions will be decreased to 6.9% on January 1 following the actuarial valuation results that project the amortization period to drop below 25 years and remain below following the termination of the 1% additional member contribution rate.

MSF contributed 9.07% of each member's compensation for the first half of the year ended December 31, 2023, and 9.17% for the second half. This was increased from 6.9% to 7.035% on July 1, 2007, 7.17% on

July 1, 2009, and to 8.17% on July 1, 2013. The rate will continue to increase .1% each year until 2024. These increased contributions will terminate on January 1 following the actuarial valuation results that project the amortization period to drop below 25 years and remain below following the termination of the additional employer contribution rates. The State also contributes a statutory appropriation from the general fund. The plan recognized $1,849,776 in MSF (employer) contributions during the plan year ended June 30, 2023.

Actuarial assumptions. The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) was determined by taking the results of a June 30, 2023 actuarial valuation. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2023 valuation were based on the results of the last actuarial experience study, dated May 2022, for the five-year period ending 2021. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.30%
- General Wage Growth (includes inflation at 2.75%) 3.50%
- Merit Increases 0% to 4.8%
- Postretirement Benefit Increases:
  Guaranteed Annual Benefit Adjustment (GABA)
  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other all adjustments to the member's benefit.
  - 3.0% for members hired prior to July 1, 2007
  - 1.5% for members hired between July 1, 2007, and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members were based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021 and projected generationally using MP-2021.
- Mortality assumptions among disabled members were based on PUB-2010 General Amount Weighted Disabled Retiree mortality table, projected to 2021, set forward one year.

Changes in actuarial assumptions and methods: There have been no changes to the assumptions or other inputs that affected the measurement of the TPL since the previous measurement date.

Discount rate. The discount rate used to measure the TPL was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The State contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2127. Therefore, the long-term expected rate of return on pension

plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target allocations. The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies. The long-term rate of return as of June 30, 2023 is based on analysis in the experience study report dated May 2, 2022 without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate or return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years. Expected real rates of return for each major asset class included in the target asset allocation as of June 30, 2023, are summarized below.

Asset Class	Target Allocation	Expected Rate of Return
Cash	3.0 %	(0.33)%
Domestic Equity	30.0 %	5.90 %
International Equity	17.0 %	7.14 %
Private Investments	15.0 %	9.13 %
Real Assets	5.0 %	4.03 %
Real Estate	9.0 %	5.41 %
Core Fixed Income	15.0 %	1.14 %
Non-Core Fixed Income	6.0 %	3.02 %
Total	100.0 %	

The following table displays MSF's proportionate share of the net pension liability using the 7.30% discount rate as well as the proportionate share using 6.30% and 8.30%, a decrease of 1% and an increase of 1%, respectively.

	1% Decrease (6.30%)	Discount Rate (7.30%)	1% Increase (8.30%)
MSF's Proportionate Share of the Net Pension Liability	$38,776,705	$26,844,447	$16,834,349

Plan fiduciary net position. The financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at http://mpera.mt.gov

Pension liabilities, expense, and deferred inflows and outflows of resources. At December 31, 2023, MSF reported a liability for its proportionate share of the Plan's total net pension liability based on the ratio of MSF's contributions to the sum of all employer and non-employer contributions during the measurement period. The State of Montana's proportionate share associated with MSF represents the ratio of contributions for MSF to the total State contributions paid. The following table displays the proportionate shares:

	Net Pension Liability	Percent of Collective NPL	Change in Percent of Collective NPL Since Prior Meas.
MSF Proportionate Share	$ 26,844,447	1.100023 %	(0.051993)%
State of Montana Proportionate Share Associated with MSF	7,118,508	0.291700 %	(0.039316)%
Total	$ 33,962,955	1.391723 %	(0.091309)%

The NPL was measured as of June 30, 2023, and the TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2023. No roll-forward procedures were used. There were no significant events between the measurement date and reporting date that are expected to have an impact on MSF's proportionate share of the liability.

For the year ended December 31, 2023, MSF recognized pension expense of $3,007,152, consisting of $2,339,331 for its proportionate share of the Plan's pension expense and $667,821 for the support provided by the State of Montana General Fund. At December 31, 2023, MSF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experiences	$ 1,069,169	$ —
Changes of assumptions	—	957,477
Actual vs. Expected Investment Earnings	68,110	—
Changes in Proportion and Differences	—	—
Between Actual Contributions	—	—
and Proportionate Share Contributions	—	804,376
Contributions Subsequent to the	956,563	—
Measurement Date	—	—
Total	$ 2,093,842	$ 1,761,853

The $956,563 reported as deferred outflows of resources related to pensions resulting from MSF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

State of Montana's year ended June 30:	
2024	$ (1,125,488)
2025	$ (923,546)
2026	$ 1,587,353
2027	$ (162,933)
Thereafter	$ —

Defined Contribution Retirement Plan

The PERS-DCRP is a multiple-employer plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefit terms are established in state law by the State of Montana Legislature. Those terms are as follows:

Eligibility for benefit

Termination of service.

Vesting

Immediate for participant's contributions and attributable income;

5 years of membership service for the employer's contributions to individual accounts and attributable income.

Benefit

Depends upon eligibility and individual account balance;

various payout options are available, including: taxable lump sums, periodic payments per participant direction and IRS permitted rollovers.

Member and employer contribution rates are established in state law by the State of Montana Legislature. The member contribution rate for the year ended December 31, 2023, was 7.9% of member compensation, while the MSF contribution rate was 9.07% of member compensation for the first half of the year and 9.17% for the second half. Both the member and employer rates have been temporarily increased by the Legislature and will decrease to 6.9% on January 1 following actuarial valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and will remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

For the year ended December 31, 2023, MSF contributed $2.4M to the defined benefit and defined contribution plans combined. MSF cannot determine the portion of that total that relates to the defined contribution plan. Of that amount, $98K remains outstanding at December 31, 2023.

Deferred Compensation Plan

MSF and its employees are eligible to participate in the State of Montana 457(b) Deferred Compensation Plan administered by the PERB. The Deferred Compensation plan is a voluntary, tax-deferred supplemental retirement plan sponsored by the Montana Public Employee Retirement Board and held in trust for the exclusive benefit of public employees and their beneficiaries. The Plan is authorized by IRC Section 457(b) and is subject to specific Internal Revenue Service's laws and requirements. It allows employees to voluntarily contribute a portion of their compensation on a pre-tax basis. The amount invested, plus interest credited on any fixed options and any gain on the variable options, is not taxable until withdrawn at a future date. MSF incurs no costs for this plan. A summary of eligibility and benefits is shown in the following table:

Contribution

Voluntary, pre-tax deferral or designated Roth contribution.

Eligibility for benefit

Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Vesting

Participants are fully vested in their accounts immediately.

Benefit

Lump sum or periodic benefit payment at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

12. Other Post-Employment Benefits (OPEB)

MSF participates in a single-employer, defined-benefit post-employment healthcare plan administered by the State of Montana. In accordance with Section 2-18-704, MCA, the plan provides optional post-employment medical, dental, and vision benefits to eligible MSF retirees and their dependents, as well as surviving dependents of deceased employees. In accordance with GASB Statement 75, MSF is required to report in its financial statements its proportionate share of the collective total OPEB liability, OPEB expense, and deferred inflows and outflows of resources related to OPEB.

OPEB Plan Description

The plan allows retirees to participate in the State health insurance plan, as a group, at a rate that does not cover all the related costs. Retirees pay their entire administratively-determined premium. Accordingly, reported contributions are not a result of direct funding to the plan or for associated liabilities, but are a measure of the difference in retiree payments into the plan and actual medical costs associated with those individuals paid for by the plan.

The plan is not administered through a trust and therefore there are no accumulated plan assets to offset the total OPEB liability. The plan is funded on a pay-as-you-go-basis, and Section 2-18-8, MCA, gives authority for establishing and amending the funding policy of the State group health insurance plan to the Montana Department of Administration.

As of December 31, 2023, the OPEB plan's administratively established retiree medical premiums vary between $484 and $2,362 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $42.37 and $71.27 and vision hardware premiums vary between $7.64 and $22.26, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

Schedule of Changes in OPEB Liability

The following schedule presents the change in MSF's proportionate share of the total OPEB liability (TOL). As of the measurement date, MSF's share of the TOL is 2.5%, based on the number of total plan participants. MSF's share of the TOL remained the same since the prior measurement date.

December 31, 2022 Balance	$ 2,505,110
Changes for the year:	
Service cost	127,006
Interest	86,327
OPEB expense	213,333
Benefit payments	(48,480)
Changes of assumptions or other inputs	(1,885,307)
December 31, 2023 Balance	$ 784,656

Actuarial Assumptions

The plan's TOL was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	December 31, 2022
Experience study period	January 1, 2018 through December 31, 2022
Measurement date	March 31, 2023
Cost method	Entry age normal funding method
Asset valuation method	N/A - no plan assets
Discount rate	3.98%
Projected payroll increases	3.50%
Participation:	
Future retirees	40.00%
Future eligible spouses	70.00%
Marital status at retirement	70.00%

Health Care Cost Trend Rate: The following health care cost trend rates were used:

Plan Year	Medical	Prescription Drug
2023	6.5%	9.0%
2024	6.1%	7.7%
2025	5.6%	6.5%
2026	5.2%	5.2%
2027-2028	5.1%	5.1%
2029-2030	5.0%	5.0%
2031-2039	4.9%	4.9%
2040	4.8%	4.8%
2041-2044	4.7%	4.7%

Mortality - Contributing Members: For general MPERA members, mortality follows the Pub-2010 General Employee table, projected generationally using MP-2021.

Mortality - Disabled: For general MPERA retirees, mortality follows the Pub-2010 General Disabled table set forward 1 year for males and females, projected generationally using MP-2021.

Changes in actuarial assumptions and methods since last measurement date: Updated trend projections based on 2023 Getzen model.

Changes in benefit terms since last measurement date: None.

Rate Sensitivity

The following tables present MSF's proportionate share of the TOL calculated using a healthcare cost trend and discount rate that are 1% higher and 1% lower than the assumed rates:

	Healthcare Cost Trend Rate		
	1% Decrease 5.5%	Assumed rate 6.5%	1% Increase 7.5%
Proportionate share of OPEB liability (in thousands)	$ 597,904	$ 784,656	$ 1,047,687

	Discount Rate		
	1% Decrease 2.98%	Assumed rate 3.98%	1% Increase 4.98%
Proportionate share of OPEB liability (in thousands)	$ 1,043,075	$ 784,656	$ 597,359

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2023, MSF's proportionate share of the plan's deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95,831	$ (1,105,429)
Changes of assumptions or other inputs	2,451,921	(2,083,656)
Amortization	(624,351)	439,960
Transactions subsequent to the measurement date	42,755	—
Total	$ 1,966,156	$ (2,749,125)

Net deferred outflows and inflows of resources will be recognized as OPEB expense as follows:

State of Montana's year ended June 30:		
2024	$	(51,449)
2025	$	(51,449)
2026	$	(51,449)
2027	$	(51,449)
2028	$	(51,449)
Thereafter	$	(568,479)

13. Contingencies

Lequis Vasquez Figueroa v. JAWC, LLC et al.: Plaintiff Lequis Figueroa filed suit in the Montana Eighteenth Judicial District Court in Gallatin County, Montana. The suit relates to a workplace injury Figueroa suffered on or about February 3, 2023. The named defendants include MSF policyholder JAWC, LLC. The suit alleges that JAWC was a contractor on the worksite and pleads two causes of action: common-law negligence and failure to provide a safe workplace under § 50-71-201, MCA. The EL per-accident coverage limit for the policy in question is $1M. Given the alleged facts, it is anticipated that the asserted value of his claim may exceed $1M. The complaint in this action has been served, and the matter is in the discovery phase. MSF believes it has significant viable defenses to the claim and assesses the probability of recovery against the State Fund to be remote.

Estate of Matthew Raimondi et al. vs. Pyramid Mountain Lumber et al.: The Estate of Matthew Raimondi filed suit in the Montana Fourth Judicial District Court in Missoula County, Montana. The suit relates to Raimondi's accidental death at the worksite on or about September 12, 2023. The named defendants include MSF policyholder Pyramid Mountain Lumber (PML). The suit pleads multiple causes of action, including: failure to provide a safe workplace under § 50-71-201, MCA; intentional tort; wrongful death; common-law negligence; infliction of emotional distress; loss of consortium; and spoliation. The EL per-accident coverage limit for the policy in question is $1M. Given the alleged facts, it is anticipated that the asserted value of his claim may exceed $1M; to MSF's knowledge, the plaintiff has not asserted a specific amount of damages. The complaint in this action has been served, but no further activity has taken place. MSF believes it has significant viable defenses to the claim and assess the probability of recovery against the State Fund to be remote.

At times Montana State Fund is involved in litigation in the areas of workers' compensation and disputes with policyholders. These are of a generally routine nature and there are no other known matters at this time that will have a material adverse financial impact to the Company.

14. Related Party Transactions

Montana State Fund's administrative attachment to the State of Montana requires that certain processes and transactions be conducted with various state agencies. The Constitution of the State of Montana, Part VIII, Article 13, requires that the Montana Board of Investments invest the assets of MSF. Under Montana statute, state agencies are required to purchase workers' compensation insurance from MSF, and the statutes define other administrative relationships that require MSF to pay specific service charges.

The following significant transactions occurred with state agencies during the year ended December 31, 2023:

Income:		
Premium	$	10,853,656
Dividends		(2,266,070)
Old Fund administrative cost allocation		528,494
Net income from State of Montana agencies	$	9,116,080
Expenses:		
Department of Administration		
Support services costs	$	2,042,506
Benefits Bureau: group insurance		3,536,862
PERS retirement contributions		2,359,870
Department of Labor & Industry - unemployment insurance		52,261
Board of Investments - transaction fees		438,862
Department of Justice - workers' comp fraud investigation services		407,963
Commissioner of Securities and Insurance - regulation/exam fees		264,659
Expenses paid to State of Montana agencies	$	9,102,983

MSF, under a group plan agreement with state agencies, writes policies for which the premiums vary based on loss experience. Future premium adjustments for these retrospective policies are estimated and accrued through a review comparing actual losses with projected future losses, to arrive at the estimate of return premium.

15. Subsequent Events

Subsequent events were evaluated through June 28, 2024, which is the date of financial statement issuance.

REQUIRED SUPPLEMENTARY INFORMATION

Risk Management (Financial Statement Note 5)

The following table illustrates how MSF's earned revenues plus investment income compare to related costs of loss and other expenses incurred for fiscal year 2015, the six-month period ended December 31, 2015 (shown as 2015.5), and calendar years 2016 through 2023. In addition, cumulative amounts related to estimated and actual paid claims are presented. The information allows for comparison of actual and estimated claims and is a basis for developing revenue and claims trends. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is used to evaluate the accuracy of incurred claims currently recognized for less mature policy years.

Risk Management Trend Information

(In Thousands)	2015	2015.5*	2016	2017	2018	2019	2020	2021	2022	2023
1. Premiums and Investment Revenue										
Earned	$ 202,569	$ 107,766	$ 208,400	$ 200,872	$ 191,989	$ 192,440	$ 172,810	$ 172,090	$ 166,343	$ 191,190
Ceded	11,310	5,545	10,447	9,841	10,007	9,552	8,905	9,549	2,003	1,639
Net earned	191,259	102,221	197,953	191,031	181,982	182,888	163,905	162,541	164,340	189,551
2. Unallocated expenses including overhead	52,570	27,822	55,392	74,235	77,032	60,848	61,657	57,622	79,519	78,128
3. Estimated losses and expenses, end of accident year										
Incurred	124,831	66,142	128,147	126,403	126,243	119,507	115,909	122,272	118,427	126,339
Ceded	—	—	—	—	—	—	—	—	—	—
Net incurred	124,831	66,142	128,147	126,403	126,243	119,507	115,909	122,272	118,427	126,339
4. Net paid (cumulative) as of:										
End of policy year	24,150	16,181	23,086	24,597	22,903	24,965	23,890	27,152	25,836	29,953
One year later	59,787	27,202	50,862	56,481	49,584	51,945	53,603	58,855	61,688	
Two years later	60,844	35,629	64,022	71,008	64,901	68,008	69,282	79,804		
Three years later	70,093	39,857	70,453	83,149	72,215	77,782	87,452			
Four years later	75,235	41,957	75,205	91,990	81,435	85,616				
Five years later	80,235	43,334	77,925	95,965	84,940					
Six years later	82,318	44,172	79,759	97,619						
Seven years later	83,367	44,798	82,441							
Eight years later	84,207	45,430								
Nine years later	84,654									
5. Re-estimated ceded losses and expenses	—	—	—	—	—	—	250	—	—	—
6. Re-Estimated net incurred losses and expense:										
End of policy year	124,831	66,142	128,147	126,403	126,243	119,507	115,909	122,272	118,427	126,339
One year later	140,598	69,180	124,616	139,589	137,713	118,725	113,956	140,507	127,455	
Two years later	120,835	66,085	130,650	135,801	121,459	119,147	129,798	125,637		
Three years later	118,624	69,645	125,487	124,105	119,403	125,611	117,847			
Four years later	122,442	67,061	117,695	129,091	122,787	119,812				
Five years later	119,045	63,438	114,545	133,565	115,283					
Six years later	116,299	62,194	115,711	128,623						
Seven years later	115,217	61,731	109,661							
Eight years later	113,283	59,272								
Nine years later	109,960									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ (14,871)	$ (6,870)	$ (18,486)	$ 2,220	$ (10,960)	$ 305	$ 1,938	$ 3,365	$ 9,028	—

* Column represents the six-month period ended December 31, 2015.

Retirement Plans (Financial Statement Note 9)

Schedule of MSF's Proportionate Share of the Net Pension Liability*

June 30:	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the Net Pension Liability	1.10 %	1.15 %	1.15 %	1.12 %	1.14 %	1.14 %	1.44 %	1.39 %	1.39 %	1.35 %
Proportionate Share of the Net Pension Liability	$26,844,447	$27,393,619	$20,854,555	$29,586,757	$23,912,918	$23,714,768	$28,106,689	$23,678,261	$19,369,771	$16,863,200
Defined Benefit Pensionable Payroll	$20,195,311	$19,991,749	$20,087,504	$18,635,965	$18,657,942	$18,494,222	$17,690,906	$16,452,061	$15,976,817	$15,340,151
Proportionate Share as % of Pensionable Payroll	132.92 %	137.02 %	103.82 %	158.76 %	128.16 %	128.23 %	158.88 %	143.92 %	121.24 %	111.22 %
Plan Fiduciary Net Position as a % of Total Pension Liability	73.93 %	73.66 %	79.91 %	68.90 %	73.85 %	73.47 %	73.75 %	74.71 %	78.40 %	79.87 %

June 30:	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contributions	$1,849,776	$1,800,548	$1,800,371	$1,648,568	$1,623,434	$1,582,700	$1,498,428	$1,391,782	$1,332,551	$1,351,735
Plan Choice Rate Required Contributions	—	—	—	—	—	—	—	69,744	110,334	—
Contributions in Relation to the Contractually Req. Contributions	$1,849,776	$1,800,548	$1,800,371	$1,648,568	$1,623,434	$1,582,700	$1,498,428	$1,461,526	$1,442,885	$1,351,735
Contribution Deficiency (Excess)	—	—	—	—	—	—	—	—	—	—
Defined Benefit Pensionable Payroll	$20,195,311	$19,991,749	$20,087,504	$18,635,965	$18,657,942	$18,494,222	$17,690,906	$16,452,061	$15,976,817	$15,132,665
Proportionate Share as % of Pensionable Payroll	9.16 %	9.01 %	8.96 %	8.85 %	8.70 %	8.56 %	8.47 %	8.88 %	9.03 %	8.93 %

Other Post-Employment Benefits (Financial Statement Note 11)

In accordance with GASB 75, the following information is presented to reflect the funding progress of the OPEB plan. There are no assets accumulated in a trust that meets the criteria of GASB 75 paragraph 4 with which to pay benefits.

Schedule of Funding Progress*

	2023	2022	2021	2020	2019	2018
Proportion of TOL	2.53 %	2.03 %	2.03 %	1.94 %	1.84 %	1.41 %
Proportionate share of TOL	$ 784,656	$ 2,505,110	$ 2,988,961	$ 919,674	$ 811,797	$ 713,776
Covered-employee payroll	$ 24,457,644	$ 22,021,307	$ 21,484,202	$ 21,643,005	$ 22,479,877	$ 22,248,980
Proportionate share of TOL as % of covered-employee payroll	3.21 %	11.38 %	13.91 %	4.25 %	3.61 %	3.21 %

*This schedule is intended to show ten years of data. Additional years will be presented as they become available.

Other Information

Montana State Fund
(A Component Unit of the State of Montana)

December 31, 2023

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Legislative Audit Committee of the Montana State Legislature
Helena, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Montana State Fund, as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise Montana State Fund's basic financial statements and have issued our report thereon dated June 28, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montana State Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana State Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana State Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Montana State Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana State Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montana State Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana State Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
June 28, 2024

Fund Response

Montana State Fund
(A Component Unit of the State of Montana)

December 31, 2023

Montana State Fund

P.O. Box 4759, Helena, MT 59604-4759
Customer Service 800-332-6102
Fraud Hotline 888-682-7463
(888-MT-CRIME)
montanastatefund.com

June 2024

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol Building
Helena, MT 59620-1705

Dear Mr. Maciver:

Montana State Fund (MSF) appreciates the professionalism, competence, and work effort of the auditors from Eide Bailly LLP and the Legislative Audit Division staff in completing the financial-compliance audit of our calendar year 2023 governmental financial statements. We are pleased with the issuance of an unmodified audit opinion with no recommendations.

The management and staff of MSF continually strive to improve our operation and prioritize high-level service to Montana employers and employees. We thank Eide Bailly and the Legislative Audit Division for its assurance and assistance in achieving our vision to be an indispensable partner in achieving a safer, healthier and more prosperous Montana.

Sincerely,

Holly O'Dell

Holly O'Dell
President/CEO